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USOECD

PASS E FOR UNDERSECRETARY COOPER; S FOR SHULMAN

E.O. 11652: GDS

TAGS: OECD, EGEN

SUBJECT: EAST-WEST ECONOMIC RELATIONS: A PROPOSAL
FOR A COMMON WESTERN ASSESSMENT OF IMPLICATIONS OF
DETERIORATING ECONOMIC PROSPECTS IN THE EAST

1. SUMMARY: THERE IS A GROWING APPRECIATION IN THE
WEST (TO WHICH THE CIA'S ANALYSIS HAS CONTRIBUTED
IMPORTANTLY) THAT THE USSR AND EASTERN EUROPE WILL FACE
DETERIORATING ECONOMIC PROSPECTS OVER THE COMING
YEARS. WHETHER THE EASTERN RESPONSE IS TOWARD
GREATER AUTARCHY OR GREATER INTERACTION WITH THE
WEST, OECD COUNTRIES WILL INCREASINGLY FACE ISSUES
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IN AREAS SUCH AS E/W DEBT, ENERGY, AGRICULTURE, TRADE,
AND TECHNOLOGY SUPPLY ON WHICH SOME FORM OF WESTERN
POLICY LEVEL CONSULTATION MAY BE DESIRABLE. AS YOU
ARE AWARE WORK ON A TECHNICAL LEVEL IS PROCEEDING ON
ALL THESE SEPARATE FIELDS IN OECD. WE SUBMIT THAT
DESPITE RESISTANCE BY SOME OECD COUNTRIES TO THIS
IN THE PAST,THE TIME MAY HAVE COME TO SEEK AN OVERALL

COMMON ASSESSMENT, AT LEAST AMONG THE MAJOR OECD COUNTRIES, OF THE IMPLICATIONS OF THE NEW SIGNS OF DETERIORATING PROSPECTS OF THE EASTERN ECONOMIES FOR OUR RELATIONS WITH THEM AND FOR THE WORLD ECONOMY. WE SUGGEST UNDERSECRETARY COOPER CONSIDER PROPOSING DISCUSSIONS ALONG THESE LINES AT AN EARLY (FEBRUARY 24) MEETING OF THE XCSS BUREAU OR G-6. CONSIDERATION MIGHT ALSO BE GIVEN TO RELATING THIS PROPOSAL TO PREPARATIONS FOR THE FORTHCOMING OR A SUBSEQUENT SUMMIT MEETING. END SUMMARY.

2. THERE IS WIDESPREAD RECOGNITION THAT THE EAST IS PLAYING A LARGER ROLE IN THE WORLD ECONOMY AND THAT INCREASED EAST/WEST ECONOMIC RELATIONS WARRANT CONTINUING EXAMINATION OF THE MAIN AREAS OF INTERACTION. THE OECD WORK PROGRAM IN E/W ECONOMIC RELATIONS, BEGUN NEARLY TWO YEARS AGO AT U.S. INITIATIVE, IS A RESULT OF SUCH A PERCEPTION.

3. AGAINST THIS BACKGROUND THERE ARE INCREASING INDICATIONS THAT CHANGES ARE OCCURRING IN THE EAST WHICH ARE LIKELY TO BEAR SIGNIFICANTLY ON THE WAY E/W ECONOMIC RELATIONS WILL EVOLVE. RECENT ANALYSES, FOR EXAMPLE BY THE CIA (AND, FROM WHAT WE HEAR, THOSE PRESENTED AT THE RECENT NATO SYMPOSIUM), THOUGH THEY MAY DIFFER AS TO THE SPEED AND DEPTH OF THE DETERIORATION, CONFIDENTIAL

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TION, TEND TO AGREE THAT THE SOVIET ECONOMY IS ENTERING A PERIOD OF SEVERE STRAIN, IN WHICH LOWER GROWTH RATES WILL FORCE HARD CHOICES ON THE SOVIET LEADERSHIP, WITH POTENTIAL MAJOR IMPACTS ON WESTERN ECONOMIC RELATIONS WITH THE USSR AND WITH EASTERN EUROPE. THE ROLE PLAYED IN THESE DEVELOPMENTS BY TRENDS IN SOVIET OIL PRODUCTION, CURRENTLY A MAJOR SOURCE OF THE HARD CURRENCY THE EAST NEEDS TO IMPORT PRODUCTIVITY-INCREASING TECHNOLOGY, MAY BE PARTICULARLY IMPORTANT. THIS SHIFT IN EASTERN ECONOMIC PROSPECTS LENDS NEW SIGNIFICANCE TO HAVING COMMON ASSESSMENTS AND POLICY DISCUSSIONS ON EASTERN ECONOMIC ISSUES AMONG OECD COUNTRIES.

4. ONE POSSIBLE EASTERN RESPONSE TO THE ECONOMIC SQUEEZE--A DETERMINED ATTEMPT TO AVOID DECLINING GROWTH RATES--WOULD INVOLVE GREATER LEVELS OF INTERACTION WITH THE WEST; INCREASED DEMANDS FOR CREDITS (AND PERHAPS PRESSURES FOR RELIEF OF DEBT BURDENS); MORE RELIANCE ON FOOD IMPORTS; CONTINUED PREDATORY MARITIME PRACTICES TO INCREASE HARD CURRENCY EARNINGS; INCREASED EMPHASIS ON COMPENSATION ARRANGEMENTS AND

MARKET ACCESS IN THE TRADE FIELD; ACCELERATED PURCHASES OF WESTERN TECHNOLOGY (AND, IN CRUCIAL SECTORS LIKE OIL, ACCEPTANCE PERHAPS OF JOINT VENTURES); TOLERANCE BY THE USSR OF GREATER EAST EUROPEAN ECONOMIC TIES WITH THE WEST; AND LARGER OPPORTUNITIES AND NEEDS TO INVOLVE THE EAST IN THE MANAGEMENT OF GLOBAL ECONOMIC PROBLEMS. ANOTHER CONCEIVABLE RESPONSE--COMPATIBLE WITH A DETERIORATING ENERGY SITUATION AND LOWER GROWTH RATES--COULD RESULT IN A TURNING INWARD OF THE EASTERN ECONOMIES, WITH IMPORTS REDUCED TO THE LEVEL SUSTAINABLE BY DECLINING OIL EXPORTS AND THE REDUCED ABILITY/WILLINGNESS TO BORROW. RESPONSES WHICH COMBINE ELEMENTS OF BOTH OF THESE CASES MAY ALSO BE FORTHCOMING. THE MAJOR OECD
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GOVERNMENTS MAY WELL NEED TO REACT IN A COHERENT FASHION, WITH SOME DEGREE OF COORDINATION, IF THE DESTABILIZING EFFECTS OF SUCH SHIFTS ARE TO BE MINIMIZED.

5. ON SOME OF THE KEY QUESTIONS NATIONAL POLICIES ARE ALREADY BEING FORMULATED, AND EVEN BEING DISCUSSED WITH OTHERS ON A BILATERAL BASIS. NO DOUBT MORE THAN ONE GOVERNMENT IS CONSIDERING THE HYPOTHESIS THAT DEBT RESCHEDULING MAY BE IN THE CARDS FOR POLAND. DECISIONS ON TRADE COMMITMENTS FROM THE EAST MUST SOON BE TAKEN IN THE MTN. NATIONAL TECHNOLOGY TRANSFER POLICIES ARE UNDER REVIEW, FOR EXAMPLE, IN THE U.S. HOW THE EAST CAN BE INVOLVED CONSTRUCTIVELY IN THE MANAGEMENT OF GLOBAL ECONOMIC PROBLEMS WHERE IT PLAYS AN IMPORTANT ROLE, E.G. FOOD, IS UNDER ACTIVE DISCUSSION. IN MANY OF THESE AREAS, TECHNICAL ANALYSIS AND DISCUSSIONS IN VARIOUS OECD BODIES ARE HELPING TO FRAME NATIONAL APPROACHES. IN OTHERS (SUCH AS AGRICULTURE) WORK HAS GOTTEN OFF TO A SLOW START OR (IN THE CASE OF DEBT) HAS BEEN CONFINED TO DATA COLLECTION AND REGISTERING OF BANKERS' PERCEPTIONS. THERE IS THUS ROOM FOR SOME IMPROVEMENT AT THIS LEVEL. IN THE CASE OF DEBT WE MAY WISH TO REVIVE THE IDEA ADVANCED EARLY LAST YEAR (BUT RESISTED BY FRAU STEEG OF GERMANY) THAT A MORE ANALYTICAL DISCUSSION OF EASTERN DEBT IN THE CONTEXT OF OVERALL BALANCE OF PAYMENTS PROSPECTS BE ENGAGED IN A POLICY ORIENTED GROUP SUCH AS THE TEMPORARY WORKING PARTY OF THE EPC.

6. WHAT HAS MOST BEEN LACKING UP TO NOW, HOWEVER, IS A COMMON ASSESSMENT OF OVERALL TRENDS IN WHICH THE INTERRELATIONSHIPS BETWEEN TRADE, DEBT, ENERGY, AND
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TECHNOLOGY ISSUES ARE TAKEN INTO ACCOUNT. FROM THE BEGINNING OF THE OECD EXERCISE OTHER COUNTRIES HAVE BEEN SKITTISH ABOUT SUCH AN EFFORT, BECAUSE OF UNCERTAINTY ABOUT U.S. OBJECTIVES AND FEAR THAT THE APPEARANCE OF "POLICY COORDINATION" VIS-A-VIS THE EAST WOULD HAVE AWKWARD POLITICAL IMPLICATIONS. THE OECD SECRETARIAT'S ATTEMPT TO STAGE AN OVERVIEW DISCUSSION AT LAST FALL'S XCSS, EVEN WITH SOME PREPARATION BY EXPERTS BEFOREHAND, CAME TO LITTLE.

7. DESPITE THIS UNPROMISING HISTORY, WE BELIEVE THAT IT WOULD BE WORTHWHILE AND TIMELY TO RENEW EFFORTS TO ENGAGE OUR MAJOR ECONOMIC PARTNERS IN INFORMAL AND RESTRICTED DISCUSSIONS AIMED IN THE FIRST INSTANCE AT REACHING A COMMON ASSESSMENT OF THE EAST'S ECONOMIC PROSPECTS AND HOW THEIR LEADERSHIP IS LIKELY TO RESPOND. AT A FURTHER STAGE IT MAY BE DESIRABLE TO WORK TOGETHER TO DRAW POLICY IMPLICATIONS FROM SUCH AN ASSESSMENT. THIS MIGHT LEAD TO CLOSER CONSULTATION ON SPECIFIC POLICY ISSUES ARISING IN AREAS SUCH AS DEBT, MARKET ACCESS, TECHNOLOGY SUPPLY, FOOD AND ENERGY POLICY, AND THE EASTERN ROLE IN MANAGING GLOBAL ECONOMIC PROBLEMS. RATHER THAN PURSUING THE MATTER IN THE XCSS PLENARY, WE SUGGEST THAT UNDERSECRETARY COOPER CONSIDER PROPOSING SUCH DISCUSSIONS AT AN EARLY MEETING (FEB 24) OF THE XCSS BUREAU OR THE G-6.

8. ECONOMIC POLICY TOWARD THE EAST IS, OF COURSE, DEEPLY ENTWINED WITH POLITICAL CONSIDERATIONS, AND THE IMPLICATIONS OF WORSENING ECONOMIC PROSPECTS IN THE EAST ARE HEAVILY POLITICAL AS WELL AS ECONOMIC. AS NOTED ABOVE, THIS POLITICAL CONTENT HAS MADE SOME OF OUR ALLIES RELUCTANT TO DISCUSS THESE ISSUES IN THE OECD. TO MAKE THEM MORE RECEPTIVE TO LAUNCHING THE

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PROCESS OF DEVELOPING A COMMON ASSESSMENT OF EASTERN ECONOMIC PROSPECTS, UNDERSECRETARY COOPER MIGHT CONSIDER, FOR EXAMPLE IN G-6 DISCUSSIONS, RELATING THIS ACTION TO PREPARATIONS FOR THE FORTHCOMING OR A SUBSEQUENT SUMMIT. KATZ UNQUOTE VANCE

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